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NATIONAL SECURITY COUNCIL

January 12, 1978

TO: RICK INDERFURTH

FROM: CHRISTINE DODSON *CD*

After Dr. Brzezinski has signed the letter
to Hammer, please forward a copy to
Rick Hutcheson.

attached

THE WHITE HOUSE

WASHINGTON

January 12, 1978

Dear Mr. Hammer:

The President has asked me to thank you for your very informative letter of December 16. My staff is already at work analyzing your suggestions, and I will be following very closely the issues you posed.

In addition, I have shared your letter with the Vice President, who, as you know, will shortly be traveling to Mexico.

With best wishes for the New Year.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Zbigniew Brzezinski', with a stylized, cursive script.

Zbigniew Brzezinski

Mr. Armand Hammer
Occidental Petroleum Corporation
10889 Wilshire Boulevard, Suite 1500
Los Angeles, California 90024

THE WHITE HOUSE

WASHINGTON

Date: December 27, 1977

MEMORANDUM

FOR ACTION:

Zbig Brzezinski
Stu Eizenstat
Secretary Schlesinger *attached*

FOR INFORMATION:

The Vice President
Jim McIntyre

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Letter from Armand Hammer dated 12/16/77 re Oil in Mexico

**YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:**

TIME: 11:00 AM

DAY: Thursday

DATE: December 29, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

HJ:

Do you want Hammer's letter~~s~~
to go into the President? If so,
we should probably give it to
Rick for possible staffing.

E.

12/19

*Rick:
see above
phone.
Thom
& him*



OCCIDENTAL PETROLEUM CORPORATION

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LOS ANGELES, CALIFORNIA 90024

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ARMAND HAMMER
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

December 16, 1977

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I was in Mexico Tuesday to receive a decoration and to also hold some meetings with high level officials of the government. We were pleased and surprised at the new reports shown us, substantially raising the size of their oil discoveries which we had previously known to be important. I believe they offer immense possibilities to the United States, as well as to Mexico. I recognize the political problems, but believe private negotiations between you and President Lopez Portillo could resolve these, creating a secure source of oil for our country outside of OPEC and at the same time assisting our balance of payments and strengthening the dollar, since Mexico is in a better position to buy more U.S. goods and services as its income rises, than are the other OPEC states.

Hamilton asked me to write a brief memo on this subject, to wit:

The Mexicans have proven 14.6 billion onshore barrels, using the best U.S. technicians, such as DeGoyler and McNaughton. There are an additional 3 billion probable barrels.

We were shown geology which indicates that both the onshore and offshore fields may contain as much as an additional 100 billion barrels. This compares with 160 billion in Saudi Arabia. They have eight rigs drilling exploratory wells offshore, and the results have been astounding. There are enough prospective structures to justify ten times the present exploratory efforts. Our sources are Jorge Dias Serrano, Director General of PEMEX and Jesus Chavarria Garcia, head of exploration and production. Both are extremely capable and thoroughly understand the energy business.

Mexico expects to produce 1.5 million barrels per day by the end of 1978 and is currently producing 1.2 million BPD. In my opinion, Mexico could easily produce 3 million BPD within 2 to 3 years and 5 to 7 million BPD within 3 to 6 years with proper financing for an intensive program.

Politically, Dias Serrano believes they cannot even talk about producing 3 million BPD at this time, since exporting large amounts of crude oil has been political anathema since nationalization in 1938. Politically, the concept of exporting refined products and petrochemicals after satisfying in-country needs is acceptable and Mexico has an extensive capital program underway in these areas. However, our friends in the Mexican government recognize that to finance important petrochemical plants and other industrial and agricultural development, it will be necessary to export large quantities of crude oil and gas.

They believe that the proposed gas line to the U.S. would pay for itself in one year, generating \$1 billion per year at the proposed gas price, based on the BTU equivalent of world oil price, which is higher than the Canadian gas price, but less than liquified natural gas from such sources as Algeria and Indonesia.

Since the U.S. needs to buy gas from the world market, it will be required to pay world market prices in the future, even to Canada, and therefore an alliance with Mexico, in the context of a broader agreement, might be advantageous.

Because Mexico is larger and more fully developed than the other OPEC states, including Iran, it could and would use enhanced foreign exchange earnings to a higher degree than the other OPEC states to purchase U.S. exports. While this is no substitute for the U.S. producing more of its own energy, it is clearly better to receive the oil from Mexico than the other OPEC states. I believe a trade agreement could be entered into, supplying Mexico with U.S. machinery and products to balance our purchases of oil, justifying our supplying Mexico with the extensive financing required.

The delicacy of all this is obvious. President Lopez Portillo must move carefully and can only increase production and exports to the U.S. if his government utilizes the newly discovered oil to enhance employment, industrialization and development of agriculture and other resources, so that his own people will see and support the program as advantageous to Mexico.

The President
December 16, 1977
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The principal constraint on rapid development of Mexican oil is financing, but it seems to me this can be resolved through personal negotiations between you and President Lopez Portillo, creating a climate in which the Mexican government will materially expand its purchases of U.S. goods and services.

At the invitation of PEMEX, our company will shortly send our highest level technical people to visit onshore and offshore fields, at which time we may be in a position to make suggestions to them as to the best procedure for optimal development of their vast reserves, both proven and potential. The Mexicans have, over a period of time provided us with geological and technical data, in exchange for data we have provided about the Gulf of Mexico, Guatemala and California.

No one U.S. company or other foreign company will play a major role in the Mexican discoveries, but I am convinced that the U.S. can greatly benefit.

Sometime soon, I hope I will have the opportunity to discuss with you some ideas I have on tackling the energy problem, with an exchange of thoughts which I believe you may find beneficial.

As always, the warmest regards from Frances and me to Rosalynn and you. We wish you both the happiest of holiday seasons. We will be the most ardent of your supporters as you undertake your arduous journey.

Respectfully,

Armand Hammer

AH: teb



Department of Energy
Washington, D.C. 20585

December 30, 1977

MEMORANDUM FOR: RICK HUTCHESON

FROM: ROGER COLLOFF for *RC*
JAMES R. SCHLESINGER

SUBJECT: DECEMBER 16, 1977, LETTER TO THE
PRESIDENT FROM ARMAND HAMMER

We have been closely following the development of Mexican oil and gas resources. Both are potentially very important for United States and world energy needs. This subject was discussed when President Lopez Portillo visited the President in September. Dr. Hammer makes a good point about the delicacy of the matter. The Mexicans, given their high sensitivity about exporting what they call the national patrimony, must be handled with great care on the energy issue.

The enthusiasm of Dr. Hammer's letter is understandable but it is difficult to see how it can be immediately translated into action. We are continuing our discussions with the Mexicans on oil and gas matters and do not believe it is advisable to raise these discussions to the Presidential level at this time.

We, therefore, recommend that a non-committal reply to Dr. Hammer's letter be prepared for the President's signature.